

## IA 1120S — GENERAL INSTRUCTIONS

**WHO SHALL FILE FORM IA 1120S** Every corporation organized under the laws of this state or deriving income from sources within this state and every foreign corporation doing business in this state or deriving income from sources within this state shall make and file an Iowa corporation return. S Corporations, Interest Charge Domestic International Sales Corporations and Foreign Sales Corporations should file Form IA 1120S. This form replaces the 1120NT.

**WHEN AND WHERE TO FILE** The IA 1120S is due on or before the last day of the fourth month after the close of the taxable year. Mail it to CORPORATION TAX RETURN PROCESSING, IOWA DEPARTMENT OF REVENUE AND FINANCE, POST OFFICE BOX 10468, DES MOINES, IOWA 50306.

**SCHEDULE K-1 FOR NONRESIDENT SHAREHOLDERS** Iowa has its own Schedule K-1 for nonresident shareholders to apportion federal K-1 income, adjustments and tax preference items, and all source modifications to Iowa.

**WHO SHALL SIGN A RETURN** The Corporation return must be signed by the president or other duly authorized officer.

### SPECIFIC INFORMATION

**Box A** Enter the Federal Employer Identification number of the corporation.

**Box B** Enter the four digit business code number for the specific industry group corresponding to the corporation's primary business activity.

**Box C** Enter the number of the (Iowa) county that is the commercial domicile or principle place of business of this corporation. Enter 00 if the commercial domicile or principle place of business is not located in the State of Iowa.

**SCHEDULE S: This schedule is to show those modifications or adjustments to federal Schedule K-1 income as required by sections 53.5 through 53.16 of the Iowa Administrative Code and to show the total modified net income from the S corporation.**

- Line 1** Net together those items of income or loss on the federal Schedule K-1 and those deductions on the federal Schedule K-1 that do not qualify as itemized deductions and enter that net figure on this line.
- Line 2** Enter the amount of interest and dividends from foreign securities, from securities of state and other political subdivisions, and from regulated investment companies exempt from federal income tax.
- Line 3** Enter total of other additions to Iowa Income which do not appear on your federal return and attach schedule. These include deductions related to sale-leaseback safe harbor lease transactions. The deduction for lease payments related to safe harbor leases is not allowed for Iowa income tax purposes. Also include the amount of IRC section 613 percentage depletion of an oil, gas, or geothermal well which exceeds the cost depletion amount determined under IRC section 611.
- Line 4** Add lines 2 and 3.
- Line 5** Enter 50% of federal income tax paid or accrued. Do not include federal tax paid on built-in gains or passive investment income.
- Line 6** Enter the amount of interest and dividends from federal securities as shown on your federal return.
- Line 7** Enter total of other reductions from your federal income which are not taxable for Iowa purposes and attach schedule.
- Line 8** Total lines 5, 6 and 7.
- Line 9** Subtract line 8 from line 4. This can result in either a positive or a negative amount.
- Line 10** Add line 9 to line 1.
- Line 11** For tax years beginning on or after January 1, 1995, S Corporations which are subject to tax on built-in gains under Section 1374 of the Internal Revenue Code or passive investment income under Section 1375 of the Internal Revenue Code are subject to Iowa Corporation income tax on this income to the extent received from business carried on in this state or from sources in this state.
- The starting point for computing the Iowa tax on built-in gains or passive investment income is the amount of built-in gains or passive investment income subject to federal tax after considering the federal income limitation. The allocation and apportionment rules of chapter 701 — 54 apply if the S Corporation is carrying on business within and without the state of Iowa. Any net operating loss carryforward arising in a taxable year for which the corporation was a C Corporation shall be allowed as a deduction against the net recognized built-in gain or passive investment income of the S Corporation for the taxable year. For purposes of determining the amount of any such loss which may be carried to any of the 15 subsequent taxable years, after the year of net operating loss, the amount of the net recognized built-in gain or passive investment income shall be treated as taxable income. The amount of Iowa taxable built-in gains or passive investment income is subject to tax at the same rates as C Corporation income. (6%; 8%; 10%; 12%)

Under \$25,000	then multiply by 6%.
\$25,000 to \$100,000,	then multiply by 8% and subtract \$ 500.
\$100,000 to \$250,000,	then multiply by 10% and subtract \$2,500.
Over \$250,000,	then multiply by 12% and subtract \$7,500.

Except for estimated and other advance tax payments, and any credit carryforward under Iowa Code section 422.33 arising in a taxable year for which the corporation was a C Corporation, no credits shall be allowed against the built-in gains or passive investment income tax.

**SCHEDULE K: This schedule is to show each shareholder's share of modifications, of all source income and of apportioned income.**

- Column 1 Enter the name and address of each shareholder.
- Column 2 Enter the letter R if the shareholder is an Iowa resident or the letter N if the shareholder is not an Iowa resident.
- Column 3 Enter the correct social security number or federal I.D. number of each shareholder.
- Column 4 Enter each shareholder's percentage of ownership.
- Column 5 Multiply line 9 of Schedule S by the shareholder's percent of ownership in the corporation and enter the result here.
- Column 6 Multiply line 10 of Schedule S by the shareholder's percent of ownership in the corporation and enter the result here.
- Column 7 For nonresidents multiply the figure in column 6 by the corporation's single factor business activity ratio and enter here. For Iowa residents enter the same figure that is in column 6 here. If the corporation conducts its business wholly within Iowa, enter the same figure that is in column 6 for all shareholders.

**IA 1120S — SUPPLEMENTARY INFORMATION**

**SUPPORTING SCHEDULES** All corporations are required to attach a copy of their federal return. If the lines on the return do not provide sufficient space, attach additional schedules.

**RESIDENT AND NONRESIDENT SHAREHOLDERS** Iowa resident and nonresident shareholders required to file IA 1040 individual income tax returns will report all Federal K-1 items of income on their IA 1040 Individual Income Tax return just as those Federal K-1 items are reported on their Federal return. Each shareholder's share of modifications, (shown in column five of the Iowa Schedule K), to this K-1 income or loss will be entered on line 14 of the IA 1040 if a positive amount or on line 24 of the IA 1040 if a negative amount. The S corporation must notify all shareholders of any all source adjustments.

**IOWA SCHEDULE K-1 TO NONRESIDENT SHAREHOLDER** All items of federal K-1 income that are a part of the Federal Adjusted Gross income and any Iowa Schedule K-1 modifications to that K-1 income must be apportioned to Iowa using a single factor business activity ratio calculated the same as for regular corporations. Use the Iowa Schedule K-1 for nonresident shareholders for this purpose. Attach a copy to the IA 1120S and provide a copy to each nonresident shareholder.

**SINGLE FACTOR BUSINESS ACTIVITY RATIO.** If an S corporation is doing business wholly within Iowa, then this ratio will be 100% to Iowa and all of the S corporation income received by a nonresident shareholder is taxable to Iowa. If the S corporation is doing business both within and without Iowa, then the S corporation can apportion the S corporation income received by the nonresident shareholders. This single factor business activity ratio would be calculated in the same manner as for regular corporations and as such, all income would be considered business income unless conclusively proved to the contrary. If the S corporation is doing business within and without Iowa, a copy of the worksheet showing the computation of the single factor business activity ratio must be attached to the IA 1120S.

**COMPOSITE FILING** If requested timely, S-corporations may be allowed to file a composite return and pay any tax due on the behalf of nonresident shareholders. See Chapter 48 of the Iowa Administrative Rules for further information. In the Des Moines area or out of state call (515) 281-3114. Elsewhere in Iowa or from the Rock Island-Moline or Omaha calling areas call 1-800-367-3388 (toll free).

**MOTOR VEHICLE FUEL TAX CREDIT** This credit is not available to the S Corporation. However, this credit may be passed through to the shareholders of an S Corporation. Compute the credit on IA 4136 and attach a schedule showing the allocation among the shareholders. Each shareholder must file an IA 4136 with the individual income tax return as well as the allocation schedule. This credit may not be claimed if the taxpayer held a valid motor fuel refund permit during the tax year, unless the permit was cancelled within the first thirty days of the tax year.

**RESEARCH ACTIVITIES CREDIT/NEW JOBS CREDIT/SEED CAPITAL CREDIT:** You may be qualified for the Iowa Research Activities Credit if your corporation has qualified for a federal credit for expanding research activities, and a portion of these qualifying research expenditures were made in Iowa. The Iowa New Jobs Credit may apply to your corporation if you started a new business or increased employment by 10%, and the new or increased employment was covered by a jobs training agreement under Chapters 260E of the Iowa Code. The seed capital credit is 10% of the money invested in an initial offering of securities by a qualified business or invested in a qualified seed capital fund after April 26, 1990. Request form IA128, Iowa Research Activities, and form IA133, New Jobs Credit, for more information on those two credits.

**AMENDED RETURNS** If an amended federal return was filed for a prior period, the taxpayer must file an amended Iowa return. Use form IA 1120S to file amended returns.

**SOCIAL SECURITY NUMBERS** Section 422.21 Iowa Code, requires that the social security numbers of all shareholders be provided on this form. The numbers are used to aid in verifying that shareholders have filed their individual income tax returns.

**CONFIDENTIALITY AND FAIR INFORMATION PRACTICES NOTICE:** Information from this return may be made available to the Internal Revenue Service or to tax officials of another state under a tax information exchange program. Except as allowed by law, information on this return cannot be released to anyone who is not an Iowa Department of Revenue and Finance or Internal Revenue Service employee. Any Department of Revenue and Finance employee who discloses tax information without legal authority is subject to a fine of \$1000.